

# **Viable Utility Reserve Committee of the State Water Infrastructure Authority**

## **North Carolina Department of Environmental Quality**

**April 8, 2020**

**Note: This meeting was held via WebEx due to the COVID-19 pandemic**

### **Meeting Minutes**

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#### **Viable Utility Reserve Committee Members Attending Meeting via WebEx or by Phone**

- Kim Colson, Chair; Director, Division of Water Infrastructure
- Leila Goodwin, Water Resources Engineer
- Maria Hunnicutt, Manager, Broad River Water Authority

#### **Division of Water Infrastructure Staff Attending Meeting via WebEx or by Phone**

- Francine Durso, Senior Project Manager
- Jennifer Haynie, Environmental and Special Projects Unit Supervisor
- Susan Kubacki, Environmental Program Manager
- Jon Risgaard, State Revolving Fund Section Chief
- Amy Simes, Senior Program Manager

***Note: Mr. Charles Vines is a member of the Committee. He attempted to connect to the WebEx meeting or join by phone, but was unable to do so. His absence from this meeting was not intentional.***

#### **Item A. Call to Order**

Mr. Colson opened the meeting and reminded the members of the Viable Utility Reserve Committee of the State Water Infrastructure Authority (SWIA) of General Statute 138A which states that any member who is aware of a known conflict of interest or potential conflict of interest with respect to any matters before the Authority today is required to identify the conflict or potential conflict at the time the conflict becomes apparent.

Mr. Colson noted that this meeting is being held via WebEx. All attendees except the members of the Viable Utility Reserve Committee of the State Water Infrastructure Authority are muted to reduce background noise. The PowerPoint slides for the meeting are visible via WebEx; video is not being used.

#### **Item B. Committee Purpose**

The Viable Utility Reserve legislation, which has not been passed by the NC General Assembly, specifies that the process is a joint effort of the State Water Infrastructure Authority and the Local Government Commission (LGC). The Viable Utility Reserve Committee is comprised of four Authority members. The purpose of the Committee is to work with Division staff to refine the process and ideas such that these could then be brought to the full Authority in a focused manner. Even if the legislation is not passed by the General Assembly, the process and ideas will still be helpful to determine ways to prioritize and fund work with distressed utilities, and provide education and outreach.

#### **Item C. Viable Utility Reserve Legislation Review**

The legislation outlines two separate processes: to determine distressed public water or wastewater systems, and then, if funds are available, to administer a program to move the distressed system to long-term viability. Performance measures will be needed to ensure that the utility remains viable into the future. The legislation would provide funding that exceeds the existing state reserve program (currently capped at \$3 million over a

3-year period) by allowing up to \$15 million for a single unit or up to \$30 million for two or more units working together.

#### **Item D. Implementing the Legislation**

Staff is focusing on three areas for implementation: distressed criteria, process framework and the education component.

##### **Distressed Criteria**

The legislation establishes minimum criteria that must be evaluated to determine if a unit is distressed, and also provides for additional criteria to be developed by the Authority and the LGC. Staff proposed the following additional criteria for consideration:

- Compliance – the type of compliance data that are available and how they could be used as criteria was discussed in detail
- Basic financial information – to provide general context (not at the same level of detail as the LGC)
- Inclusion on the LGC’s Unit Assistance List (UAL) – a local government unit may be included on the UAL due to internal controls which could indicate a lack of organizational capacity
- Customer density – there is a general trend that smaller utilities have fewer customers per mile of water pipe or wastewater pipe; therefore, fewer customers to pay for maintaining or replacing that mile of pipe
- Utility rates – rates may be artificially low, or may already be so high that they cannot be increased
- Population change – correlates to the ability to afford projects in the future, especially if customers use less water and the number of customers is decreasing

Ms. Hunnicutt commented that the suggested criteria cover the main problem areas for utilities that are troubled. Another to consider adding is the strength of the utility’s leadership and governance. For example, a system may be at high risk if it is operated by one Operator in Responsible Charge (ORC) who is off-site. The ORC may or may not visit the site daily, but with no oversight by the utility, the utility does not know what is being done or not being done. Criteria that could address this type of risk would be helpful.

Ms. Goodwin commented that the criteria are reasonable. But going forward, given the current situation with COVID-19 and the likely economic downturn, the metrics may look very different from the “normal” recent data that have been analyzed. In the next few years, it might be important to consider other parameters due to the “not normal” circumstances that are coming. Regarding the economic downturn, Ms. Hunnicutt stated that a bulk customer of the Broad River Water Authority has already seen collections drop by 66% from their customers who are timely payers.

Staff will continue to compile data and plan to present specific criteria for review at the next Committee meeting.

##### **Process Framework**

Staff presented flow charts depicting the possible steps that an entity would follow after being identified as distressed. Three flow charts were described, noting that each begins with an orientation meeting:

- An overall process for distressed systems
- A process for a distressed system that could result in a utility reset
- A process for a distressed system that could result in a new utility structure

At each decision-point, represented by diamonds in the flow charts, the local government unit’s decision-makers will have enough information to make well-informed decisions about what is best for their community. It was noted by staff that local decision-making is a key to the process.

Committee members commented that the processes are reasonable, noting that it will likely vary for each individual distressed unit. In addition, it might be helpful for an Authority member to attend an orientation, at least at the beginning of this program, to hear the issues first-hand from distressed systems.

#### Education Component

Per the legislation, initial and on-going education will be required for governing boards, finance officers, and operations staff of distressed systems. Staff presented the outline below for the initial educational component, which is planned for one full day. The proposed format will be groups of 30 people maximum organized into small groups of 5 or 6 people, with a mix of large group and small group presentations and discussions, and case studies.

- Why elected officials and utility staff are present – required by legislation because identified as distressed
- Introductions – attendees will be asked to talk about their occupation, how long they have been in office, why they sought elected office, and the biggest surprise they have encountered since being in office
- Keynote speaker – the keynote speaker will be someone from the area where the meeting will be held and has experience/success with utility management
- Water and wastewater basics
- Value of water
- Utility viability
- Modules for Master Plan best practices
- Final case study and wrap-up – instead of a final case study, a brief test might be more useful to help retain information

Staff noted that it has been working closely with the NC League of Municipalities (NCLM) over the past several months to develop a similar presentation for an elected officials workshop. These workshops will be organized by the NCLM and presented by Division staff. The original plan was to hold a half-dozen workshops in the summer and fall of 2020 but this may be delayed due to the pandemic. However, staff plans to hold a “dry-run” of the NCLM presentation prior to the first workshop.

Committee members commented that the content and length of the initial educational component is on target and will be very useful for elected officials and their staff. It will also be a good opportunity for local governments to learn that they are not the only unit that is in distress and also to learn from each other. Ms. Goodwin stated that she would like to attend the presentation “dry-run”.

#### **Item E. Schedule Future Committee Meetings**

Future Committee meetings are proposed to be held in May, June, August, October and November 2020, noting that the May and June meetings might have to be held via WebEx. Committee members noted that those months will work well for meetings.

**Item F. Adjourn** – The meeting was adjourned.